

**Frequently Asked Questions -
IRS Increases Exempt Organizations Application Fees**
October 5, 2009

The IRS announced that it is [raising the fees](#) for organizations applying for tax-exempt status. The new application fees for Forms 1023, 1024, 1028 and for group exemption letters will take effect for all applications postmarked after January 3, 2010.

The following are frequently asked questions and answers about the new fees.

Q. Why is the IRS increasing application fees now, especially since many charities are struggling financially because of the economy?

A. The law requires the IRS to review and adjust its application fees at least once every two years. The fees must take into account the average time and difficulty of reviewing the applications. This is the first EO fee increase since 2006.

Q. What factors does the IRS consider when determining the fees?

A. The Office of Management and Budget directs federal agencies to charge user fees reflecting the full cost of goods or services. When setting the fees, IRS looks at the number of cases and the actual time and costs of reviewing the applications, plus other cost accounting data.

Q. How does the IRS account for a fee increase to \$850?

A. In 2005, the last time the costing evaluation was performed, the estimated cost for an initial application for exemption with annual gross receipts more than \$10,000 was \$750, using the following calculation: User Fee = (Average Hours per Case) X (Average Cost per Staff Hour). The 2010 increase is due to inflation and an increased cost of doing business, including wages, postage and other overhead.

Q. I understand the IRS is releasing a new software program, Cyber Assistant, designed to help prepare an application for tax exemption. What is Cyber Assistant?

A. Cyber Assistant is a Web-based software program designed to help 501(c)(3) applicants prepare a complete and accurate Form 1023. It guides the user through the application process, providing education about the duties and responsibilities that go along with tax-exempt status. The program solicits information about the applicant and builds an exemption application based on the user's responses. The program also alerts the user to errors in the application and prompts the user to supply missing information.

Q. I read that when Cyber Assistant is introduced, the application fees will change again and that organizations using Cyber Assistant to prepare applications will pay a significantly lower fee. Is that true?

A. Yes. The application fee will be \$200 for any 501(c)(3) organization using Cyber Assistant. Any 501(c)(3) organization, regardless of size, not using Cyber Assistant will pay an \$850 application fee.

Q. Why is the fee structure different?

A. Cyber Assistant alerts the user to errors in the application and prompts the user to supply missing information. As a result, the final product is complete, with fewer mistakes, reducing the need for contact between the applicant and the IRS. Plus, the application the IRS receives includes bar codes that capture the data from the application and allow the IRS to process the application more expeditiously. All of these steps and benefits will reduce the cost to the IRS, justifying a lower application fee.

Q. When will Cyber Assistant be available?

A. Cyber Assistant currently is in the testing phase; we expect to have it available during 2010.

Q. How will I know when Cyber Assistant is available?

A. We will announce its availability, and the resulting changes in application fees, in the Internal Revenue Bulletin, on IRS.gov and in the EO Update.

Q. Can I use Cyber Assistant to complete my Form 1024?

A. No. Cyber Assistant is only available for Form 1023, applications for 501(c)(3) tax-exempt status.

Q. Should an organization wait for Cyber Assistant to take advantage of its lower application fee?

A. The date an organization files its Form 1023 can affect the effective date of its tax-exempt status, if granted. Most organizations must file Form 1023 by the end of the 15th month after they were created, with a 12-month extension available. An organization that is not a private foundation is not required to file Form 1023 unless its annual gross receipts are normally more than \$5,000. An organization must file Form 1023 within 90 days of the end of the year in which it exceeds this threshold.

An organization that files its application before the deadline will be recognized as tax exempt under section 501(c)(3) from the date of its creation. An organization that files after the deadline may be recognized as tax exempt from the date of the application; it may also request exemption retroactive to the date of creation.

Therefore, each organization should review these timeframes and, taking into consideration the changes in the application fees, determine the appropriate and most beneficial time to file its Form 1023.

Q. Will other EO-related fees increase?

A. Because the IRS is required by law to re-evaluate all user fees every two years, other fees are expected to increase in 2010. All user fees will be announced in the annual user fees revenue procedure published in January 2010.